

July 15, 2010

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**PUBLIC SERVICE
COMMISSION**

Jeff R. Derouen, Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
P. O. Box 615
Frankfort, KY 40602-0615

Dear Mr. Derouen:

Re: Special Service Contract between Kentucky Power Company and
EQT Gathering LLC Derby Compressor Station

Pursuant to 807 KAR 5:011, Section 13, enclosed are the original and four copies of the Special Contract between EQT Gathering LLC and Kentucky Power Company. The Contract provides for service to EQT Gathering LLC's Derby Compressor Station located at Pinson Fork on Blackberry Creek, Pike County, Kentucky to be billed on the Company's Quantity Power Tariff at Primary Service (Tariff Code 358).

The Customer is planning to install two 1,750 HP compressors with an expected electrical monthly demand of 1,300 kW each. The current anticipated in-service date for the first compressor is June 2011. The second 1,750 HP compressor is expected to be placed in service six to twelve months after the first 1,750 HP compressor is placed in service. The Customer also has future plans for the possible addition of another two 1,750 horsepower compressors (four in total) at this location. In order to serve the Customer's load at this location (one to four 1,750 HP compressors), Kentucky Power estimates its cost to upgrade the lines and station work at \$1.8 million.

The Company conducted two cost-of-service studies. The first study was based upon a contract capacity of 1,300 kW (one 1,750 HP compressor) and demonstrated a need for a Contribution in Aid of Construction (CIAC) in the

amount of approximately \$663,700. The second cost-of-service study was based upon a contract capacity of 2,600 kW (two 1,750 HP compressors) and showed that the service at 2,600 kW was fully compensatory. Thus, no CIAC would be required.

In light of the cost-of-service studies; the six month to one year time lag between the in-service date of the first 1,750 HP compressor and the second 1,750 HP compressor; and because of the uncertainty related to the possibility of adding a third and fourth 1,750 HP compressors, the Company believes that it is appropriate to provide service to the Customer upon the following terms agreed to by Kentucky Power and the Customer:

- (1) The initial term of the contract is for five years rather than the standard two year agreement. The longer term was deemed appropriate given the Company's estimated \$1.8 million cost of the required work.
- (2) Between the date the service is energized for the first 1,750 HP compressor and the in-service date of the second 1,750 HP compressor, the Customer will pay a monthly bill based on the actual usage with a contract capacity of 1,300 kW, along with an additional charge of \$12,500.00 per month. The additional charge will cover the monthly deficit between the cost-of-service and the estimated annual revenue.
- (3) Once the second 1,750 HP compressor is placed in service, the Customer will pay a monthly bill based on the actual usage with a contract capacity of 2,600 kW. The \$12,500.00 per month additional charge will stop.
- (4) The Company anticipates that with normal staffing of two contract crews, it will take approximately one year to complete the work. The Addendum to the contract for electrical service contains a provision which allows the Customer the option to request the hiring of additional crews, which will be paid for by the Customer, to work for and be directed by KPC. The purpose of the additional construction crews is to accelerate the in service date for the facilities to be constructed. The additional cost is estimated at \$10,000 per crew per week.

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The Company and the Customer believe these special provisions of the contract strike a reasonable balance between the interests of the Company's other customers, the Company and EQT Gathering, LLC.

Should EQT Gathering, LLC. fail to place the second 1,750 HP compressor in service at the Derby Compressor Station, the Customer will pay the \$12,500.00 monthly amount for the entire five (5) year period of the initial contract for a total amount of \$750,000.00 (\$12,500 X 60). This is approximately \$86,300 more than the calculated CIAC.

After you or your staff have had a chance to review the enclosed information and should there be additional information required, please feel free to give me a call. I can be reached at 502-696-7010.

Sincerely,

A handwritten signature in black ink, appearing to read "Errol K. Wagner". The signature is fluid and cursive, with a large initial "E" and a long, sweeping underline.

Errol K Wagner

Director of Regulatory Services

Attachments